AASB Interpretation

Interpretation 125
August 2015

Income Taxes—Changes in the Tax Status of an Entity or its Shareholders

Australian Government

Australian Accounting Standards Board

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AASB Interpretation 125 *Income Taxes—Changes in the Tax Status of an Entity or its Shareholders* is set out in paragraphs 1 – Aus4.2. Interpretations are listed in Australian Accounting Standard AASB 1048 *Interpretation of Standards* and AASB 1057 *Application of Australian Accounting Standards* sets out their application. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

Comparison with SIC-25

AASB Interpretation 125 *Income Taxes—Changes in the Tax Status of an Entity or its Shareholders* incorporates Interpretation SIC-25 *Income Taxes—Changes in the Tax Status of an Entity or its Shareholders* issued by the International Accounting Standards Board (IASB). Australian-specific paragraphs (which are not included in SIC-25) are identified with the prefix "Aus". Paragraphs that apply only to not-for-profit entities begin by identifying their limited applicability.

Tier 1

For-profit entities complying with AASB Interpretation 125 also comply with SIC-25.

Not-for-profit entities' compliance with SIC-25 will depend on whether any "Aus" paragraphs that specifically apply to not-for-profit entities provide additional guidance or contain applicable requirements that are inconsistent with SIC-25.

AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of reporting requirements.

AASB Interpretation 125
Income Taxes—Changes in the Tax Status of an Entity or its Shareholders

References

- AASB 101 *Presentation of Financial Statements*
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- AASB 112 *Income Taxes*

Issue

1 A change in the tax status of an entity or of its shareholders may have consequences for an entity by increasing or decreasing its tax liabilities or assets. This may, for example, occur upon the public listing of an entity's equity instruments or upon the restructuring of an entity's equity. It may also occur upon a controlling shareholder's move to a foreign country. As a result of such an event, an entity may be taxed differently; it may for example gain or lose tax incentives or become subject to a different rate of tax in the future.

2 A change in the tax status of an entity or its shareholders may have an immediate effect on the entity's current tax liabilities or assets. The change may also increase or decrease the deferred tax liabilities and assets recognised by the entity, depending on the effect the change in tax status has on the tax consequences that will arise from recovering or settling the carrying amount of the entity's assets and liabilities.

3 The issue is how an entity should account for the tax consequences of a change in its tax status or that of its shareholders.

Consensus

4 A change in the tax status of an entity or its shareholders does not give rise to increases or decreases in amounts recognised outside profit or loss. The current and deferred tax consequences of a change in tax status shall be included in profit or loss for the period, unless those consequences relate to transactions and events that result, in the same or a different period, in a direct credit or charge to the recognised amount of equity or in amounts recognised in other comprehensive income. Those tax consequences that relate to changes in the recognised amount of equity, in the same or a different period (not included in profit or loss), shall be charged or credited directly to equity. Those tax consequences that relate to amounts recognised in other comprehensive income shall be recognised in other comprehensive income.

Date of consensus

[Deleted by the AASB]

Withdrawal of AASB pronouncements

Aus4.1 When applied or operative, this Interpretation supersedes Interpretation 125 *Income Taxes—Changes in the Tax Status of an Entity or its Shareholders* issued in July 2004.

Effective date

[Deleted by the AASB]

Aus4.2 This Interpretation applies to annual reporting periods beginning on or after 1 January 2016. Earlier application is permitted for periods beginning on or after 1 January 2014 but before 1 January 2016.

Basis for Conclusions on
SIC-25 *Income Taxes—Changes in the Tax Status of an Entity or its Shareholders*

This Basis for Conclusions accompanies, but is not part of, AASB Interpretation 125. An SIC Basis for Conclusions may be amended to reflect any additional requirements in the AASB Interpretation or AASB Accounting Standards.

[The original text has been marked up to reflect the amendment to IAS 12 in 2003, and the revision of IAS 38 Intangible Assets *in 2004 and IAS 1* Presentation of Financial Statements *in 2007: new text is underlined and deleted text is struck through.]*

5 IAS 12.58 requires current and deferred tax to be included in ~~the net~~ profit or loss for the period, except to the extent the tax arises from a transaction or event that is recognised outside profit or loss either in other comprehensive income or directly in equity, in the same or a different period, (or arises from a business combination ~~that is an acquisition~~). IAS 12.61A requires ~~that~~ current and deferred tax to be recognised outside profit or loss ~~charged or credited directly to equity~~ if the tax relates to items that are recognised ~~credited or charged~~, in the same or a different period, outside profit or loss ~~directly to equity~~.

5A IAS 12.62 identifies examples of circumstances in which a transaction or event is recognised in other comprehensive income as permitted or required by another IFRS. All of these circumstances result in changes in the recognised amount of equity through recognition in other comprehensive income.

6 IAS 12.62A identifies examples of circumstances in which a transaction or event is recognised directly in equity as ~~is~~ permitted or required by another IFRS ~~International Financial Reporting Standard~~. All of these circumstances result in changes in the recognised amount of equity through recognition of a credit or charge directly to equity.

7 IAS 12.65 explains that where the tax base of a revalued asset changes, any tax consequence is recognised in other comprehensive income ~~directly in equity~~ only to the extent that a related accounting revaluation was or is expected to be recognised in other comprehensive income ~~directly in equity~~ (revaluation surplus).

8 Because tax consequences recognised outside profit or loss, whether in other comprehensive income or directly in equity, must relate to a transaction or event recognised outside profit or loss ~~directly in equity~~ in the same or a different period, the cumulative amount of tax ~~charged or credited directly to equity~~ recognised outside profit or loss can be expected to be the same amount that would have been recognised outside profit or loss ~~charged or credited directly to equity~~ if the new tax status had applied previously. IAS 12.63(b) acknowledges that determining the tax consequences of a change in the tax rate or other tax rules that affects a deferred tax asset or liability and relates to an item previously recognised outside profit or loss ~~charged or credited to equity~~ may prove to be difficult. Because of this, IAS 12.63 suggests that an allocation may be necessary.

Deleted SIC-25 text

Deleted SIC-25 text is not part of AASB Interpretation 125.

Date of consensus

August 1999

Effective date

This consensus becomes effective on 15 July 2000. Changes in accounting policies shall be accounted for in accordance with IAS 8.

IAS 1 (as revised in 2007) amended the terminology used throughout IFRSs. In addition it amended paragraph 4. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.